

# Financing Owner-Occupied Commercial Real Estate 101



**"Understanding your client's financial condition and the competitive landscape will help you recommend the best financing option!"**



Victor Castillo @



# Determine Financing Need

- **Refinancing an existing loan**
  - Is there a prepayment penalty?
  - Does value support max LTV?
  - Is there cash out?
- **Acquiring a new property**
  - Will there be displaced rent?
  - How much financing is needed?
- **Construction**
  - Is it brand new construction?
  - Is it improvement of an existing property?

# Financing Options

- **Conventional Commercial Real Estate Loan**
- **SBA Commercial Real Estate Loan**
  - SBA 504
  - SBA 7(a)
- **Investor Real Estate Cash Out**
- **Referral To Broker or Lender**

# Conventional CRE Loan

- **Loan Amount:**

- Depends on bank's max loan per borrower or max LTV for property type

- **Loan-To-Value:**

- Office & industrial: 70% to 80%
- Retail: up to 75% (some banks won't do retail)
- Special purpose: up to 50%

- **Property Type:**

- Office, industrial, retail & special purpose

- **Underwriting Approach:**

- Global cash flow: for loans up to \$3 to \$5MM
- Fixed charge coverage: for loans > \$3 to \$5MM

- **Term:**

- Up to 25 years

# SBA 504 Loan

- **Loan Amount:**

- Bank finances 50% (or more of the project)
- SBA finances 40% of the project:
  - Up to \$5.5MM for manufacturers & energy businesses & \$5MM for all others

- **Loan-To-Value:**

- Max LTV of 90%

- **Property Type:**

- Office, industrial, retail & special purpose

- **Underwriting Approach:**

- Global cash flow: for loans up to \$3 to \$5MM
- Fixed charge coverage: for loans > \$3 to \$5MM

- **Term:**

- Up to 25 years

# SBA 7(a) Loan

- **Loan Amount:**

- Banks: up to 90% of the project up to \$5MM
- SBLCs: up to 100% of the project up to \$5MM

- **Loan-To-Value:**

- LTV of 90% to 100%

- **Property Type:**

- Office, industrial, retail & special purpose

- **Underwriting Approach:**

- Global cash flow: for loans up to \$3 to \$5MM
- Fixed charge coverage: for loans > \$3 to \$5MM
- SBLCs are more aggressive & approve deals with weaker cash flow & collateral

- **Term:**

- Up to 25 years

# Construction

- **Loan Amount:**

- Up to 90% of project (using SBA option)

- **Loan-To-Value:**

- **Construction Bridge Loan:**

- Up to 90% (using SBA option)
- Lender will require additional collateral and/or reserves during construction

- **Permanent Loan: up to 90% (using SBA option)**

- **Property Type:**

- Office, industrial, retail & special purpose

- **Underwriting Approach:**

- **Global cash flow: for loans up to \$3 to \$5MM**
- **Fixed charge coverage: for loans > \$3 to \$5MM**

- **Term:**

- Same as Conventional or SBA



# Investor Cash Out

- **Some lenders allow cash out on investor CRE, which can be used to acquire OOCRE**
- **Loan Amount:**
  - Determined by property's net operating income
- **Loan-To-Value:**
  - Varies by lender's credit policy
- **Property Type:**
  - Office, industrial, retail & multi-family
- **Underwriting Approach:**
  - Determined by property's net operating inc.
- **Term:**
  - Up to 25 years

# Be Your Client's Loan Hero

**"When a client is declined, it is best to give them an alternative financing option. You are more likely to retain a referral source or win back a client if you do!"**



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